

MARION COUNTY LIBRARY BOARD

ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2017

JOHNSON, MURPHEY & WRIGHT, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
CHATTANOOGA, TENNESSEE

I. INTRODUCTORY SECTION

MARION COUNTY LIBRARY BOARD
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June 30, 2017

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MARION COUNTY LIBRARY BOARD
Trustees/Officers
June 30, 2017

Chairman Jerry Don Moss
Secretary Lona Parker
Vice-Chairman/Treasurer Charles McEntyre
Trustee Delores Rogers
Trustee Pat Price
Trustee Tommye Stanfill
Trustee Renee Looney

II. FINANCIAL SECTION



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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Marion County Library Board

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund information of the Marion County Library Board, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements, as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Marion County Library Board, as of June 30, 2017, and, the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted a Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Marion County Library Board's basic financial statements. The Introductory Section is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Introductory Section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 16, 2018, on our consideration of the Marion County Library Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Marion County Library Board's internal control over financial reporting and compliance.

Johnson, Murphy & Wright, P.C.

Chattanooga, Tennessee
February 16, 2018

BASIC FINANCIAL STATEMENTS

MARION COUNTY LIBRARY BOARD
Statement of Net Position
June 30, 2017

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash	\$ 83,868
Prepaid	<u>187</u>
Total current assets	<u>84,055</u>
Non-current assets	
Capital assets	
Library collections and books, net	<u>765,452</u>
TOTAL ASSETS	<u>\$ 849,507</u>
LIABILITIES	
Current liabilities	
Payable to pension plan	<u>\$ 17,883</u>
NET POSITION	
Investment in capital assets	\$ 765,452
Unrestricted	<u>66,172</u>
TOTAL NET POSITION	<u>\$ 831,624</u>

The accompanying notes are an integral part of the financial statements.

MARION COUNTY LIBRARY BOARD
Statement of Activities
Year Ended June 30, 2017

		<u>Program Revenues</u>		<u>Net (Expense)</u> <u>Revenue and</u> <u>Changes in Net</u> <u>Position</u>
	<u>Expenses</u>	<u>Charges for</u> <u>Services</u> <u>and Fines</u>	<u>Operating</u> <u>Grants and</u> <u>Contributions</u>	<u>Governmental</u> <u>Activities</u>
GOVERNMENTAL ACTIVITIES				
Program services	\$ 152,351	\$ 17,992	\$ -	\$ (134,359)
Support services	11,792	-	151,139	139,347
Total governmental activities	<u>\$ 164,143</u>	<u>\$ 17,992</u>	<u>\$ 151,139</u>	<u>4,988</u>
GENERAL REVENUES				
Interest revenue				55
Miscellaneous				1,432
Grants and contributions - unrestricted				<u>15,093</u>
Total general revenues				<u>16,580</u>
Change in net position				21,568
Net position - beginning				<u>810,056</u>
Net position - end				<u>\$ 831,624</u>

The accompanying notes are an integral part of the financial statements.

MARION COUNTY LIBRARY BOARD
Governmental Funds
Balance Sheet
June 30, 2017

	General Fund
ASSETS	
Cash	\$ 83,868
Prepaid	<u>187</u>
TOTAL ASSETS	<u>\$ 84,055</u>
LIABILITIES	
Payable to pension	<u>\$ 17,883</u>
FUND BALANCES	
Nonspendable	\$ 187
Unassigned	<u>65,985</u>
TOTAL FUND BALANCES	<u>\$ 66,172</u>

The accompanying notes are an integral part of the financial statements.

MARION COUNTY LIBRARY BOARD
Reconciliation of Fund Balance to the Statement of Net Position
June 30, 2017

Total fund balance per governmental funds Balance Sheet	\$ 66,172
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	<u>765,452</u>
Net position of governmental activities	<u>\$ 831,624</u>

The accompanying notes are an integral part of the financial statements.

MARION COUNTY LIBRARY BOARD
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
June 30, 2017

	General Fund
REVENUES	
Local governmental appropriations	\$ 151,139
Grants and contributions	15,093
Fines and fees	14,762
Book sales	3,230
Interest income	55
Miscellaneous	<u>1,432</u>
Total revenue	<u>185,711</u>
EXPENDITURES	
Program services	171,342
Support services	<u>11,792</u>
Total expenditures	<u>183,134</u>
Excess (deficiency) of revenues over (under) expenditures	2,577
FUND BALANCES - beginning	<u>63,595</u>
FUND BALANCES - end	<u>\$ 66,172</u>

The accompanying notes are an integral part of the financial statements.

MARION COUNTY LIBRARY BOARD
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of
Governmental Funds to the Statement of Activities
June 30, 2017

Net change in fund balances for total governmental funds	\$ 2,577
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	<u>18,991</u>
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Change in net position of governmental activities	<u>\$ 21,568</u>
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The accompanying notes are an integral part of the financial statements.

MARION COUNTY LIBRARY BOARD
Notes to Financial Statements
June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Marion County Library Board have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The following is a summary of the more significant accounting policies:

A. Reporting Entity

Marion County Library Board is a non-profit entity which operates under provisions of the laws of Tennessee. The Entity is governed by a chairman and board members who jointly oversee the general administrative responsibilities. Because it is primarily funded by allocations from local governments and provides services to the public, it is classified as a "special purpose" government.

The City of South Pittsburg, City of Whitwell, Town of Jasper and Marion County participate in the joint operation of the Marion County Library Board. The Marion County Library Board consists of nine members. The Marion County Library Board, however, does not qualify as a component unit of the City of South Pittsburg, City of Whitwell or Town of Jasper and has no component units based on the criteria of GASB Statement No. 14 as amended by GASB Statement No. 39.

B. Basic Financial Statements

The basic financial statements include both government-wide (based on the Entity as a whole) and fund financial statements. Both the government-wide and fund financial statements categorize activities as either governmental activities or business-type activities.

Government-wide Statements - The Entity's government-wide financial statements include a Statement of Net Position and a Statement of Activities. These statements present summaries of Governmental Activities for the Entity applicable to governmental units which are generally accepted in the United States of America.

The Statement of Net Position and the Statement of Activities display information about the primary government. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double-counting of internal activities. The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Entity's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees, fines and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational requirements of a particular program. The net cost (by function) is normally covered by general revenue (unrestricted grants and contributions, interest income, etc.).

This government-wide focus is designed to view the Marion County Library Board as a complete entity and the change in aggregate financial position resulting from the activities of the fiscal period

Fund Financial Statements - The fund financial statements provide information about the Entity's funds. Separate statements for each fund category are presented. The emphasis of fund financial statements is on the major governmental fund.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basic Financial Statements (Continued)

The Entity reports the following major governmental fund:

General Fund - This is the Entity's primary operating fund. It accounts for all financial resources of the Entity, except those required to be accounted for in another fund.

C. Measurement Focus - Basis of Accounting

The government-wide financial statements are presented in an economic resources measurement focus and the accrual basis of accounting. Accordingly, all of the Entity's assets, deferred outflows, liabilities, and deferred inflows, including capital assets, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The types of transactions reported as program revenues are reported in two categories 1) charges for services; and 2) operating grants and contributions.

Government Fund Financial Statements

Government fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. The Entity has presented all major funds that met those qualifications.

All governmental funds are accounted for on a spending or current financial resources measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balance presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to financial expenditures of the current period. Accordingly, revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Entity considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to compensated absences claims and judgments are recorded when payment is due.

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the governmental activities column in the government-wide financial statements, a reconciliation is presented on the page following each statement which briefly explains the adjustments necessary to transform the fund-based financial statements into the governmental activities column of the government-wide presentation.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

D. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with generally accepted accounting principles but are not required to be included in this presentation. Annual appropriated budgets are adopted for the general and special revenue funds. All annual appropriations lapse at fiscal year-end. Budgeted amounts are as originally adopted, or as amended by the Board prior to June 30, 2017.

E. Cash and Cash Equivalents

For financial statement purposes, the Entity considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Investments

Investments are reported at fair value, which is based on quoted market prices. At year-end, the Entity did not have any investments.

G. Prepayment of Expenditures

Expenses extending over more than one accounting period are allocated between accounting periods and reported as an expense of the period in which they relate.

H. Inventories

Supplies and materials are recorded as expenditures at the time items are purchased and are not inventoried at year-end due to lack of materiality.

I. Restricted Assets

Certain resources can be classified as restricted assets on the Statement of Net Position because their use is limited. At year-end, there were no restricted assets to be reported.

J. Collections and Books

The Entity's collections and books are capitalized and depreciated under group methods for lives ranging from 10 to 40 years.

K. Contributed Facilities and Services

The Entity occupies, without charge, premises owned by the City of South Pittsburg, the City of Whitwell and the Town of Jasper. The estimated fair rental value of the premises is not included in the accompanying statements.

A number of unpaid volunteers have made significant contributions of their time to develop the Entity's programs. The value of this contributed time is not reflected in these statements as no reliable basis exists for determining an appropriate amount.

L. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Financial Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. Currently, the Entity has no items that qualify for reporting as a deferred outflow of resources.

In addition to liabilities, the Statement of Financial Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. Currently, the Entity has no items that qualify for reporting as a deferred inflow of resources.

M. Compensated Absences

Any unused vacation or sick leave expires at year-end, therefore, there is no accrual of a liability for future benefits.

N. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the Statement of Net Position.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Pensions

The Marion County Library Board's employees were previously included in the Marion County Courthouse Employees' Tennessee Consolidated Retirement System (TCRS) pension plan. On October 6, 2015, the Marion County Library Board received a letter from TCRS stating that it must have its own TCRS plan and could no longer be combined with the Marion County Courthouse Employees' plan. TCRS asked the Library to stop making contributions until this issue is settled. The Library has been withholding and matching contributions since October 1, 2015. Pension contributions outstanding at year-end totaled \$17,833.

P. Net Position

Net position is the residual of all elements presented in the Statement of Financial Position (i.e., assets + deferred outflows - liabilities - deferred inflows). Net investment in capital assets represent capital assets reduced by accumulated depreciation and by any outstanding debt related to the acquisition, construction or improvement of those assets. Restricted net position represents restricted assets reduced by any related outstanding debt.

Q. Fund Balance

Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* established standards for fund balance classifications for state and local governments and requires that resources be classified for accounting reporting purposes into the following fund balances:

Nonspendable: The Entity cannot spend these amounts due to form.

Restricted: The State or other sources can restrict funds to specific purposes by externally imposing restrictions or imposing by law through constitutional provisions or enabling legislation.

Committed: The Board of Trustees has the authority to commit funds for a specific purpose. Any funds set aside as committed fund balance requires, at a minimum, the passage of a resolution by a simple majority vote. An ordinance may also be used.

Assigned: The Board of Trustees has the authority to set aside funds for the intended use of a specific purpose. Any funds set aside as assigned fund balance requires a simple majority vote and must be recorded in the minutes.

Unassigned: Amounts not classified as nonspendable, restricted, committed, or assigned.

When both restricted and unrestricted funds are available for expenditure, restricted funds should be spent first unless legal requirements disallow it.

When restricted, committed, assigned and unassigned funds are available for use, restricted funds should be spent first, committed funds second, assigned funds third and unassigned funds last.

R. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

S. Uncertain Tax Position

The Entity accounts for the effect of any uncertain tax positions based on a more likely than not threshold to the recognition of the tax positions being sustained based on the technical merits of the position under examination by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax benefits are estimated based on the cumulative probability assessment that aggregates the estimated tax liability for all uncertain tax positions. Tax positions for the Entity include, but are not limited to, the tax-exempt status and determination of whether income is subject to unrelated business income tax. Based on its evaluation, the Entity has concluded that there are no significant uncertain tax positions requiring recognition in its financial statements. The Entity's evaluation was performed for tax years ended June 30, 2014 through June 30, 2017, for Federal income tax, the years that remain subject to examination by major jurisdictions as of June 30, 2017.

T. Non-Profit Entity

The Entity is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from Federal income taxes on related income pursuant to Section 501 of the Code.

U. Events Occurring after Reporting Date

The Entity has evaluated events and transactions that occurred between June 30, 2017, and February 16, 2018, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

NOTE 2 - DEPOSITS

Deposits

Custodial credit risk is the risk that in the event of a bank failure the Entity's deposits may not be returned to it. The Entity does not have a deposit or investment policy for custodial credit risk, however, the State of Tennessee requires its governmental entities to either meet the deposit and collateralization regulations under TCA Title 9, Chapter 4, Parts 1 and 4, or as provided in the collateral pool. As of June 30, 2017, the carrying amount of the Entity's deposits was \$65,985 and the bank balance was \$86,346. None of the Entity's bank balance was exposed to custodial credit risk as uninsured or uncollateralized due to the fact that all of its deposits are fully collateralized.

NOTE 3 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017, was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Government activities:				
Capital assets being depreciated:				
Library collections and books	\$ 1,161,099	\$ 64,313	\$ (38,667)	\$ 1,186,745
Less accumulated depreciation for:				
Library collections and books	<u>414,638</u>	<u>45,322</u>	<u>(38,667)</u>	<u>421,293</u>
Total capital assets being depreciated - net	<u>746,461</u>	<u>18,991</u>	<u>-</u>	<u>765,452</u>
Governmental activities capital assets - net	<u>\$ 746,461</u>	<u>\$ 18,991</u>	<u>\$ -</u>	<u>\$ 765,452</u>

Depreciation expense charged to programs is as follows:

Program services	<u>\$ 45,322</u>
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NOTE 4 - FUND BALANCES

Fund balances are as follows:

Nonspendable: \$187 is nonspendable due to its prepaid form.

Unassigned: In accordance with generally accepted accounting principles, the General Fund is the only fund at the Board that reports amounts for unassigned fund balance. This classification represents fund balance that is not nonspendable and has not been committed to specific purposes within the General Fund.

NOTE 5 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Explanation of certain differences between the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances and the government-wide Statement of Activities:

The governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances includes a reconciliation between net changes in fund balances for total governmental funds and changes in net position of governmental activities as reported in the government-wide Statement of Activities. One element of that reconciliation explains that, "Governmental funds report capital outlay as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$18,991 difference are as follows:

Capital outlay	\$ 64,313
Depreciation expense	<u>(45,322)</u>
Net adjustment	<u>\$ 18,991</u>

NOTE 6 - RISK MANAGEMENT

The Entity is exposed to various risks of loss to torts: theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Entity carries commercial insurance. For insured programs, there have been no significant reductions in insurance coverage for the current year or the three prior years.

NOTE 7 - CONCENTRATIONS

The Entity is highly dependent on government funding that could be discontinued at any time. The Entity believes that it is highly unlikely that funding would be discontinued because of the nature of the services provided.

NOTE 8 - PAYABLE TO PENSION PLAN

The Marion County Library Board's employees were previously included in the Marion County Courthouse Employees' Tennessee Consolidated Retirement System (TCRS) pension plan. On October 6, 2015, the Marion County Library Board received a letter from TCRS stating that it must have its own TCRS plan and could no longer be combined with the Marion County Courthouse Employees' Plan. TCRS asked the Library to stop making contributions until this issue is settled. The Library has been withholding and matching contributions since October 1, 2015. Pension contributions outstanding at year-end, totaled \$17,883, with \$10,215 of this amount payable from the Library and \$7,668 payable from the employees.

III. INTERNAL CONTROL AND COMPLIANCE SECTION



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**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Trustees
Marion County Library Board

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of the Marion County Library Board as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Marion County Library Board's basic financial statements and have issued our report thereon dated February 16, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Marion County Library Board's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Marion County Library Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Marion County Library Board's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as 2017-001 through 2017-006, which we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Marion County Library Board's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Marion County Library Board's Response to Findings

The Marion County Library Board's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Marion County Library Board's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Johnson, Murphy & Wright, P.C.

Chattanooga, Tennessee
February 16, 2018

MARION COUNTY LIBRARY BOARD
Schedule of Findings and Responses
June 30, 2017

SUMMARY OF AUDIT RESULTS

Opinion:

Unmodified opinion issued on the financial statements in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Deficiencies:

During the audit of the financial statements, six significant deficiencies in internal controls were disclosed.

Material Noncompliance:

None disclosed.

FINDINGS RELATING TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS

INTERNAL CONTROL:

Finding 2017-001 - Approvals and Documentation

Criteria:

Government Auditing Standards Chapter A.06(h) states that “inadequate controls for the safeguarding of assets” is a control deficiency.

Condition:

1. Bank statements are not reconciled each month for all locations.
2. Transactions are not posted to the Board’s books until year-end.
3. Library equipment was borrowed by an employee.

Cause:

1. A policy is not in place to ensure bank statements for all locations are reconciled each month.
2. A policy is not in place to ensure transactions are posted in a timely basis and that each transaction can be traced to the bank statement.
3. A policy was not in place so that Library equipment could not be loaned out to employees.

Effect:

1. If bank statements are not reconciled, unauthorized expenses could be charged to the Board.
2. If transactions are not posted timely, the Board’s financial condition is unknown.
3. Loaning out Library equipment leads to a misappropriation of assets.

Management’s Response:

We concur. We are implementing new procedures to correct these issues in the future.

MARION COUNTY LIBRARY BOARD
Schedule of Findings and Responses (Continued)
June 30, 2017

FINDINGS RELATING TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS (Continued)

INTERNAL CONTROL: (Continued)

Finding 2017-002 - Cash Shortage of at Least \$3,680 at the Orena Humphreys Public Library

Criteria:

The Tennessee Comptroller of the Treasury issued an Investigative Report on February 9, 2018, discussing a cash shortage.

Condition:

A cash shortage resulted from various factors including: City of Whitwell reimbursements that were not deposited into the Library's checking account, Marion County Library Board reimbursements that were not deposited into the Library's checking account, donations not deposited into the Library's checking account, unallowable food purchases and unallowable cigarette purchases.

Cause:

The Library does not have written policies and procedures in place for procurement and reimbursement and there was not a complete and accurate record for donations.

Effect:

Without having written policies and procedures and complete accounting records in place, misappropriations of Library assets can easily occur.

Management's Response:

We concur. We will work with City officials to ensure written policies and procedures are in place for procurement and reimbursement and complete and accurate accounting records for donations will be initiated.

Finding 2017-003 - Questionable Disbursements at the Orena Humphreys Public Library

Criteria:

The Tennessee Comptroller of the Treasury issued an Investigate Report on February 9, 2018, discussing questionable disbursements.

Condition:

Investigators questioned whether the questionable disbursements, totaling \$2,167, were for business-related purposes: cash withdrawals, donations, employee reimbursement, charges for gas, and purchases without adequate supporting documentation.

Cause:

The Library's records could not show if these disbursements were made as part of "normal business operations".

MARION COUNTY LIBRARY BOARD
Schedule of Findings and Responses (Continued)
June 30, 2017

FINDINGS RELATING TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS (Continued)

INTERNAL CONTROL: (Continued)

Finding 2017-003 - Questionable Disbursements at the Orena Humphreys Public Library (Continued)

Effect:

Without having adequate documentation to support all purchases, a misappropriation of Library assets can easily occur.

Management's Response:

We concur. We will take steps to determine if the disbursements were for the benefit of the Library.

Finding 2017-004 - Created Invoices in the Names of Other Entities to Support Library Expenditures Totaling \$938 at the Orena Humphreys Public Library

Criteria:

The Tennessee Comptroller of the Treasury issued an Investigative Report on February 9, 2018, discussing invoices created by the Director.

Condition:

The Library's Director created at least eight invoices in the names of other entities to support Library expenditures.

Cause:

The Library did not have original invoices from the vendors to submit for reimbursement and created their own.

Effect:

The practice of creating invoices on behalf of other entities or individuals could result in the Library paying for or submitting requests for reimbursements for expenses not incurred.

Management's Response:

We concur. We will request vendors to provide original invoices for all good or services.

MARION COUNTY LIBRARY BOARD
Schedule of Findings and Responses (Continued)
June 30, 2017

FINDINGS RELATING TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS (Continued)

INTERNAL CONTROL: (Continued)

Finding 2017-005 - Personal Checks and an "IOU" totaling \$85 were Exchanged for Cash from the Petty Cash Fund at the Orena Humphreys Public Library

Criteria:

The Tennessee Comptroller of the Treasury issued an Investigative Report on February 9, 2018, discussing personal checks and an "IOU" being exchanged for cash.

Condition:

A former Library employee was allowed to exchange personal checks and an "IOU" for cash from the petty cash fund.

Cause:

A policy was not in place so that employees would not be allowed to exchange personal checks and "IOU's" for cash from the petty cash fund.

Effect:

Only official transactions of the office should flow through the petty cash fund.

Management's Response:

We concur. The petty cash funds will be secured and only designed employees will have access to the funds.

MARION COUNTY LIBRARY BOARD
Schedule of Findings and Responses (Continued)
June 30, 2017

FINDINGS RELATING TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS (Continued)

INTERNAL CONTROL: (Continued)

Finding 2017-006 - Accounting and Control Deficiencies at the Orena Humphreys Public Library

Criteria:

The Tennessee Comptroller of the Treasury issued an Investigative Report on February 9, 2018, discussing accounting and control deficiencies.

Condition:

The following accounting and internal control deficiencies were found: little management oversight and written policies and procedures, non-segregation of duties, checks were signed in advance, checks were written out of numerical sequence, bank statements were not initialed by the board representative, finance charges and late fees were incurred on the Library's credit card, collections were not adequately secured until deposited, collections were not deposited in a timely manner, pre-numbered receipts were not issued for all collections, collection logs were not properly maintained, Library debit and credit cards were not secured, and there were disbursements without adequate supporting documentation.

Cause:

There is a lack of management oversight, written policies and procedures, and an inadequate maintenance of accounting records.

Effect:

Without proper management oversight and adequate accounting records and procedures, a misappropriation of Library assets can easily occur.

Management's Response:

We concur. We will incorporate the recommendations made by the Comptroller's office.

MARION COUNTY LIBRARY BOARD
Schedule of Prior Audit Findings
June 30, 2017

<u>Finding Number</u>	<u>Finding Title</u>	<u>Status</u>
2016-001	Approvals and Documentation (Original finding 2014-01)	Repeated